


AR32



BONANZA ANNUAL REPORT 1977

Corporate Information

HEAD OFFICE

1800, 444 - 5 Avenue S.W.
Calgary, Alberta
Phone: 403-263-6250

EXPLORATION OFFICE

6610 Harwin Drive
Houston, Texas, 77036
Phone: 713-784-9856

SUBSIDIARY COMPANIES

Bonanza Exploration Ltd.
Bonanza Resources, Inc.

TRANSFER AGENT

Canadian Imperial Bank of Commerce
First City National Bank of Houston

AUDITORS

Thorne Riddell & Co.

SOLICITORS

Macleod Dixon, Calgary
Vinson, Elkins, Houston

ENGINEERING CONSULTANTS

R. W. Macdonald Engineering Co. Ltd.,
Calgary, Alberta
Paul E. Cameron, Jr., Inc., Houston, Texas

DIRECTORS AND OFFICERS

John J. Fleming

President and Director
Calgary, Alberta

William A. Bell

Vice-President and Director
Calgary, Alberta

David G. Ferguson

Director
Calgary, Alberta

Seymour Schulich

Director
Toronto, Ontario

Edward A. Galvin

Director
Calgary, Alberta

Annual Meeting

The Annual Meeting of Shareholders will be held in the Calgary Inn, Calgary, Alberta on March 13, 1978.

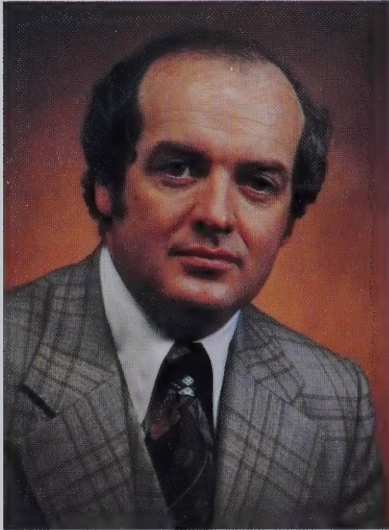
Fiscal Year Ended September 30
(thousands of dollars)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Financial					
Gross Income	398	828	1,717	2,745	4,963
Cash Flow — operations	124	466	1,197	1,907	3,571
Per Share	4¢	13¢	33¢	53¢	93¢
Net Earnings — operations	56	154	304	711	1,398
Per Share	2¢	4¢	8¢	19¢	35¢
Dividends	—	—	107	107	198
Per Share	—	—	3¢	3¢	5¢
Working Capital	2,646	1,845	1,009	423	5,773
Capital Expenditures	2,434	2,889	2,229	7,823	9,529
Shareholders Equity	5,727	6,589	6,808	9,337	20,828
Operations					
Oil Production (Barrels)	12,755	93,372	154,861	225,000	394,000
Per Day	34	255	424	620	1,095
Gas Production					
(millions of cubic feet)	—	—	1,195	2,156	3,139
Per Day	—	—	3.3	5.1	8.7

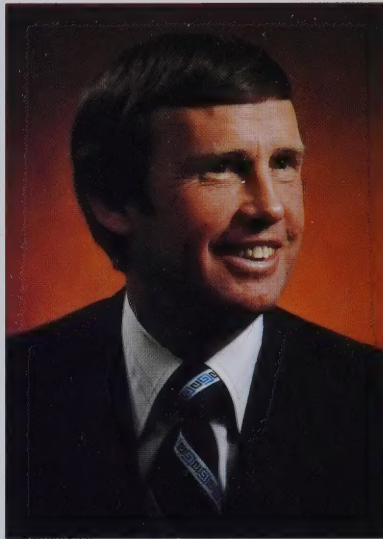
HIGHLIGHTS



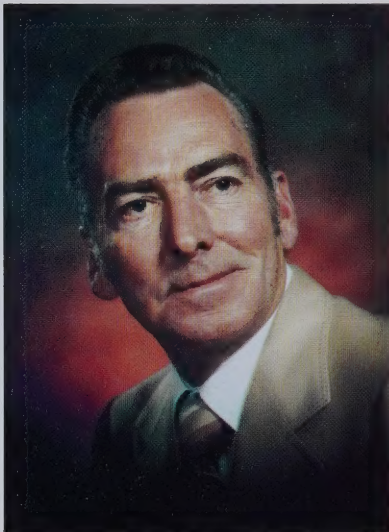
Directors and Officers



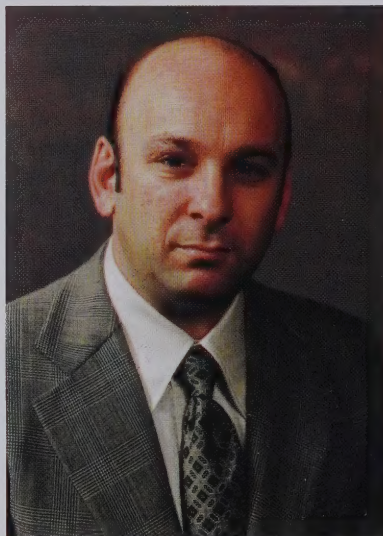
John J. Fleming
President and Director



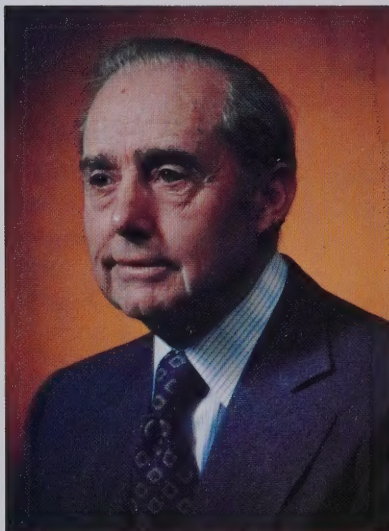
William A. Bell
Vice-President and Director



David G. Ferguson
Director



Seymour Schulich
Director



Edward A. Galvin
Director

To The Shareholders

The Company's 1977 fiscal year was totally dominated by the results of the Company's exploration and development activities in Brazos County, Texas, approximately 100 miles north of Houston. The initial production in 1977 from this project contributed to new all-time high levels of oil and gas revenues, cash flow, and earnings. The Company's current net daily production of 3000 barrels of oil and 10 million cubic feet of natural gas is substantially higher than the average daily production for 1977, and is an indication of the significantly higher earnings from oil and gas operations that are expected in 1978.

Development of the Company's oil and gas leases in Brazos County will continue to take priority during 1978. Since September 30, 1977, a further 17 development wells have been drilled, bringing to 37 the number of consecutive successful oil wells that the Company has drilled or participated in since the discovery well was drilled in 1976. It is expected that a minimum of three wells per month will be drilled by the Company during 1978. In addition to the Company's drilling activities, a large number of wells are being drilled by other operators in the immediate area of the Company's lands which will assist in defining the size of this oil discovery made by the Company during June of 1976. A gas gathering system is presently under construction and is expected to be completed by April 1, 1978, and a preliminary reservoir engineering study is being made to determine the feasibility of increasing the amount of recoverable oil through the implementation of a secondary recovery scheme.

The capital expenditures of \$9.5 million incurred in 1977 were financed from cash flow, the proceeds from sale of certain gas properties, the proceeds of a successful rights issue to all shareholders and a convertible debenture that was placed privately with institutional investors. Such debentures were converted to common shares prior to September 30, 1977. The Company has negotiated bank financing with

both Canadian and U.S.A. banks which together with its working capital of \$5.7 million will enable it to conduct its 1978 capital expenditure program that is expected to exceed \$12 million.

In addition to the higher levels of cash flow from oil and gas operations forecast in 1978, the company will benefit from the fact that an increasing percentage of cash flow is generated in United States funds which are presently at a premium of approximately 10% over Canadian funds.

Exploration continues to be relatively more attractive in the U.S.A. than in Canada for the small and medium-sized companies. Prospective exploratory lands can be accumulated at more reasonable prices than is the case in Canada where the acquisition cost of exploration acreage has become almost prohibitive. Production of both oil and gas can commence almost immediately at relatively unrestricted rates in the U.S.A. whereas long delays are generally experienced in Canada before production can be placed on stream.

Unless the Canadian regulatory authorities allow natural gas to be exported to the U.S.A., new gas reserves will not come on stream until 1980 and this fact, along with the Canadian prorationing scheme that restricts crude oil production, will encourage companies such as Bonanza to continue to explore for oil and gas reserves in the United States.

The achievements of 1977 would not have been possible without the combined efforts of a highly dedicated staff and a competent group of professional consultants. To these people, the Board expresses its gratitude.

Submitted on Behalf of the Board



J. J. Fleming
President

Company History and Management Profile

Amalgamated Bonanza Petroleum Ltd. is a Calgary-based petroleum and natural gas company engaged in conventional exploration and development in Western Canada and the Southern United States. The Company has been concentrating its efforts in Louisiana and Texas in the United States and in the Plains area of Alberta in Canada.


The Company was originally incorporated in Alberta as Canadian Bonanza Petroleum Ltd. in September, 1966, and became a public company with a listing on the Calgary Stock Exchange a year later, after successfully raising \$200,000 by the sale of 500,000 common shares. In 1969 Frisco Petroleums Ltd. was acquired in exchange for cash and stock, and this acquisition provided the company with its first significant petroleum and natural gas production. Frisco had an interest in 50 oil wells and 13 gas wells in the Countess-Lathom area of southeastern Alberta. The development of these properties was financed with a \$2,500,000 production loan and a further \$500,000 private placement. All of the shares of Frisco Petroleums Ltd. were sold in 1972 to Canadian Industrial Gas & Oil Ltd. (CIGOL), now part of Norcen Energy Resources Limited, in exchange for 755,000 CIGOL common shares valued at \$10.00 each. CIGOL also assumed approximately \$3,000,000 of production debt. After a tax-free distribution of 65¢ per share in CIGOL stock, Bonanza concluded its 1972 fiscal year with \$3,000,000 in the treasury. Bonanza then embarked on a program of low-risk oil and gas projects in Alberta to establish long-term sources of cash flow. At the same time, a subsidiary, Bonanza International Petroleum Ltd., was created to engage in higher risk exploration in Louisiana and other foreign areas. During 1973, 25% of this subsidiary was sold in a public share offering for \$1,260,000 to provide exploration funds. A further \$1,572,000 was raised in late 1973 in a rights issue to Bonanza International shareholders.

In order to remove certain conflicts in respect to the allocation of exploration funds, Canadian Bonanza and its subsidiary, Bonanza International were merged in April, 1974, to form the present company, Amalgamated Bonanza Petroleum Ltd. During 1977 the Company raised approximately \$9,000,000 through the issuance of convertible debentures and a rights offering made to all shareholders.

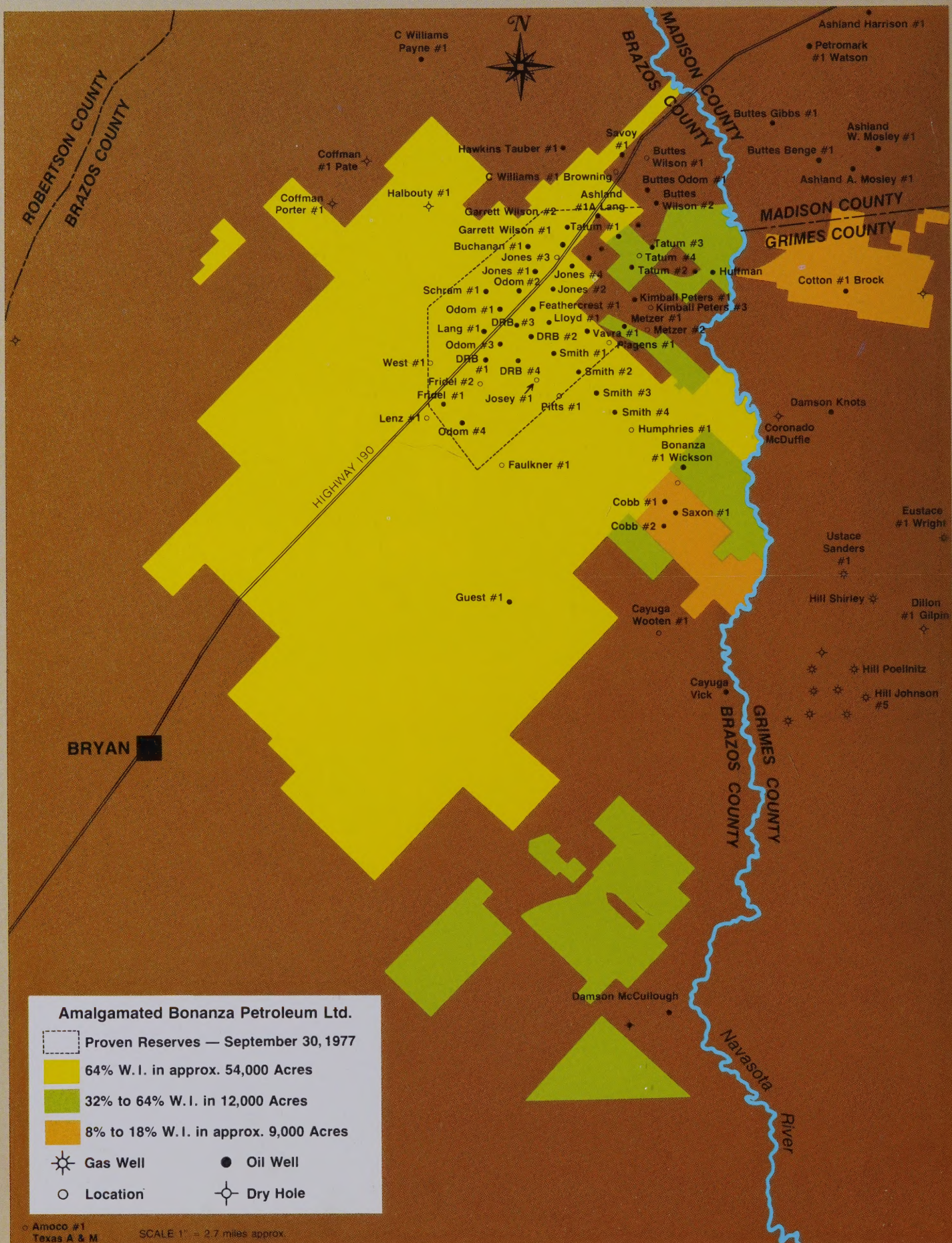
As a result of its exploration and development efforts since 1972 and its program of property acquisitions, Bonanza has established net North American production of 3000 barrels per day of crude oil and 10.0 MCF/D of natural gas from a proven reserve base of 14 million barrels of oil and 122 BCF of natural gas.

The operating philosophy of the Company's management has been to maintain a small professional staff whose combined abilities cover the disciplines of geology, petroleum engineering and finance. The officers of the Company are John J. Fleming with 16 years experience in finance and William A. Bell with 20 years experience in geology. The Company has been able to maintain its flexibility by utilizing outside consultants and Joint Venture Partners for drilling and production operations and contract service groups to provide drafting, accounting, and other services.

Exploration and development has been restricted to conventional exploration regions in North America with specific emphasis on programs in Alberta, Louisiana, and Texas. In these regions, there is ready access to markets such that development of production can proceed almost immediately after the exploration phase. As well, field operators are readily available and production loan financing can be obtained with a minimum of difficulty. Given this approach Bonanza has been able to increase the stock market value of the Company approximately sixty-fold since 1972, from \$3.0 million at that time to approximately \$180 million in December 1977.

An aerial photograph of an industrial oil drilling site. In the center-left, a tall metal derrick stands on a concrete pad. To its right, there are several large, horizontal, cylindrical storage tanks, some with blue roofs. In the foreground, a large, rectangular settling pond filled with dark grey slurry is visible. The background consists of a vast, flat, brownish landscape under a clear sky.

REVIEW OF OPERATIONS



United States

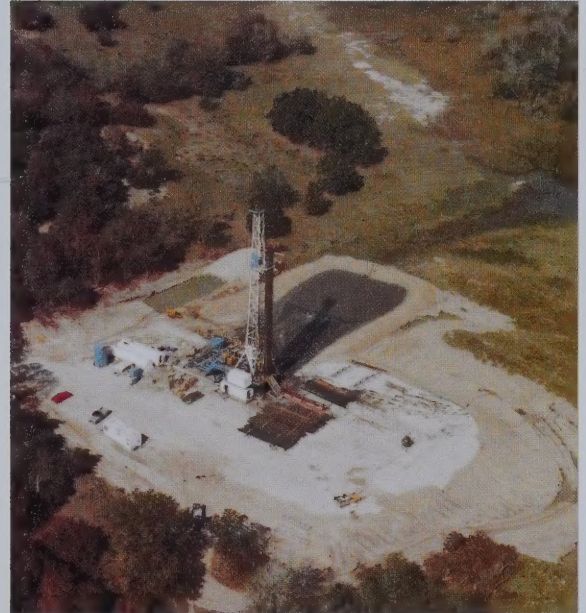
During 1976, the Company drilled a total of 23 wells in the United States resulting in 20 oil wells, 1 gas well, and 2 abandonments. Although the majority of the Company's 1977 activities were concentrated in Brazos County, Texas, it is expected that, during 1978, as the Brazos project becomes more of a development project, additional time will be devoted to new exploratory projects in the southern part of the United States.

Brazos County, Texas

The Company has a 64% interest in approximately 54,000 acres of petroleum and natural gas rights in the northern part of Brazos County, Texas. In addition, the Company has acquired interests varying from 8% to 64% in a further 21,000 acres contiguous with the 64% owned properties. Since the drilling of the discovery well, Bonanza Schram No. 1, in July, 1976, which encountered light gravity oil in the Woodbine formation at approximately 8300', the Company has, to September 30, 1977, participated in the drilling of a further 19 wells, all of which have encountered oil in the Woodbine-Eagleford (Woodbine) formation. Subsequent to September 30, 1977, a further 17 successful Woodbine oil wells have been drilled bringing to 37 the number of successful oil wells drilled from the inception of the project to December 31, 1977. The locations of all wells drilled to date by the Company and by others are shown on the attached map.

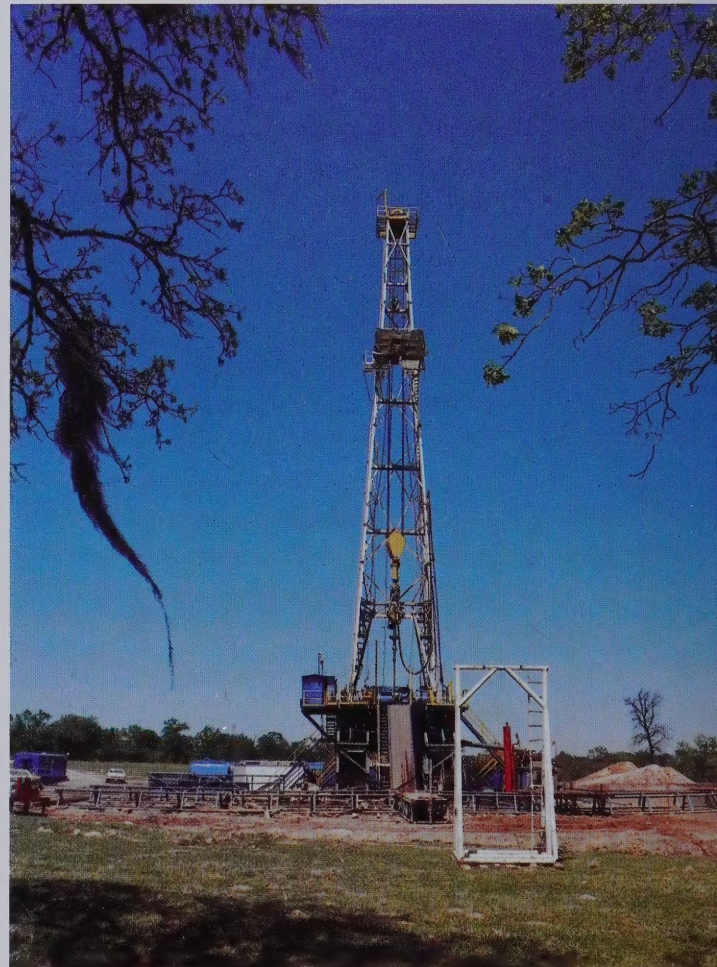
This discovery has been officially designated the Kurten Woodbine Field. Oil production to date is from four separate Woodbine sands of Upper Cretaceous age which occur within a gross sand and shale interval of approximately 650 feet. Individual sands vary from 4 feet to 54 feet with each sand having its own distribution pattern. Several wells have encountered all four sands productive with each well generally producing from only one sand at any given time. Production varies from 50 barrels per day to 380 barrels per day with current production

averaging 130 barrels per day per well. The production allowable for the field is 380 barrels per day per well.



Delineating an area of potential production is made difficult by the multiplicity of sands which will doubtless exceed the four currently producing. Mapping within the field indicates a general thinning to the north which is further confirmed by the presence of only minor quantities of sand in the Halbouty well drilled in 1964 and thin non-commercial sand in two recently abandoned wells Coffman Porter #1 and Pate #1. Wells drilled to the east in Grimes and Madison counties confirm the presence of productive sand in that direction although increasing shale content restricts its producibility. In a southerly direction the Cayuga Vick well which has no sand in the Woodbine interval may delineate the productive area in this direction but the lack of sand could be a local anomalous condition. The Cayuga Cobb #1 and Saxon #1 wells which have sands correlatable with the main field area and gross sand thicknesses of 42 and 48 feet respectively have recently been completed as flowing wells indicating continuous sand at least this far south. The western portion of the Company's lands are virtually untested. The Bonanza #1 Guest well (four miles southwest of the Kurten Field) reached total depth during December, 1977. The well encountered 30 feet of potentially productive Woodbine sand which appears correlative with the field and as such would be a significant extension. The closest well to the Guest well in a westerly direction is the currently drilling Amoco Texas A&M well just west of the Brazos River in Burleson County. This well is rumoured to have no Woodbine sand but a large area still remains to be explored between the Guest #1 and Texas A&M wells.

In addition to the Woodbine sands, indications of hydrocarbons have been encountered in the shallow Wilcox sands, the Austin Chalk immediately overlying the Woodbine, the Buda at the base of the Woodbine and in the Glenrose of Lower Cretaceous age. The Tatum #1 well after encountering mechanical difficulties tested 100 Mcf per day from the Glenrose prior to being completed in the





Woodbine and the recently drilled Guest #1 eight miles to the southwest tested approximately 500 Mcf per day from the same zone at an elevation 500 feet structurally lower than the Tatum #1. The Guest well is currently being acidized on the premise that the production rate can be materially improved. Any decision as to testing the Woodbine sand will be dependent on test results from the Glenrose.

It is expected that a minimum of three drilling rigs will be used during 1978 on a continuous basis to define the limits of the Kurten field. The Company also plans an exploratory program to test the remainder of the acreage block which will also see it participating in exploratory wells with several other companies, particularly along the southern and western extremities.

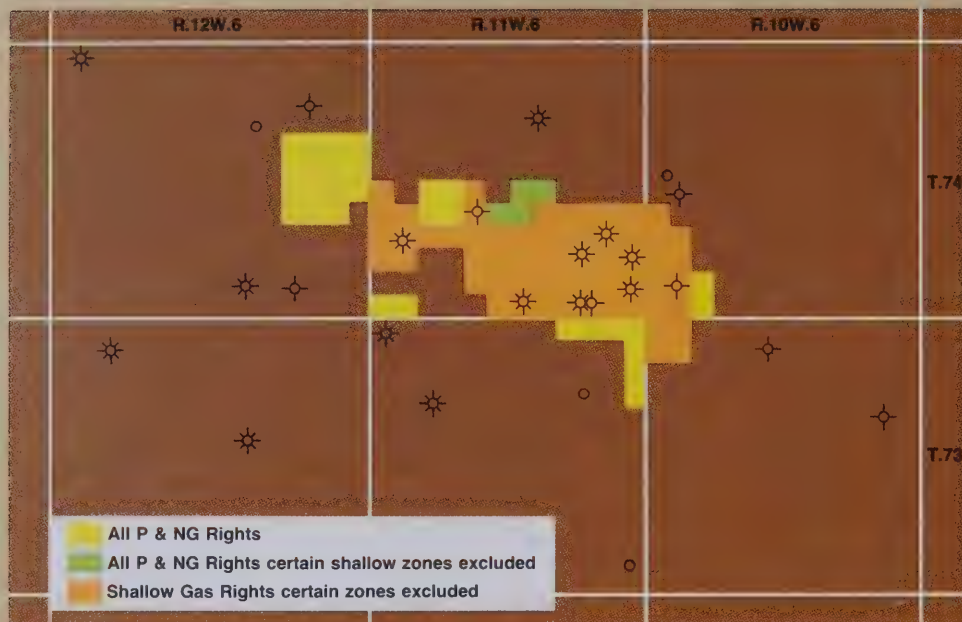
During December, 1977, gross production from the field was approximately 3000 barrels per day and will increase as development drilling continues and wells already drilled are completed and placed on stream. Preliminary reservoir engineering studies are being made to determine the feasibility of implementing a secondary recovery scheme. A successful waterflood program would maintain or improve the productivity of the wells and would significantly increase the ultimate amount of oil recovered from the field.

Solution gas is produced with the oil production and is presently being flared. A gas gathering system is now under construction, and it is expected that initial gas sales of three to four million cubic feet per day will commence during April, 1978. The Company has negotiated a gas contract calling for an initial price of \$2.00 per thousand cubic feet which when adjusted for the B.T.U. content of the gas, should yield approximately \$2.50 per thousand cubic feet.

St. Martinville, Louisiana

Two wells were drilled during 1977 on this 100% owned prospect in South Louisiana. The Bonanza Labbe #1 was dry and abandoned and the Bonanza Bourque #2 was completed as an oil well. Cumulative production from this project from its initial discovery by the Company in 1973 to September 30, 1977, was 500,000 barrels of oil and 1.5 billion cubic feet of natural gas having an aggregate market value in excess of \$5 million. As is typical with salt dome production, each of the wells in the project have several hydrocarbon zones behind pipe which will be produced in the future after the lower zones have been gradually depleted. With such recompletions, it is expected that the Company will be able to maintain its current production of approximately 400 barrels of oil per day from this project for a number of years.

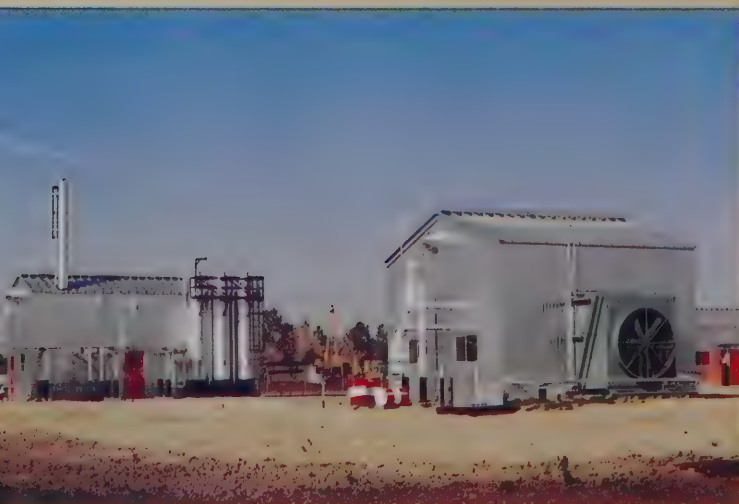
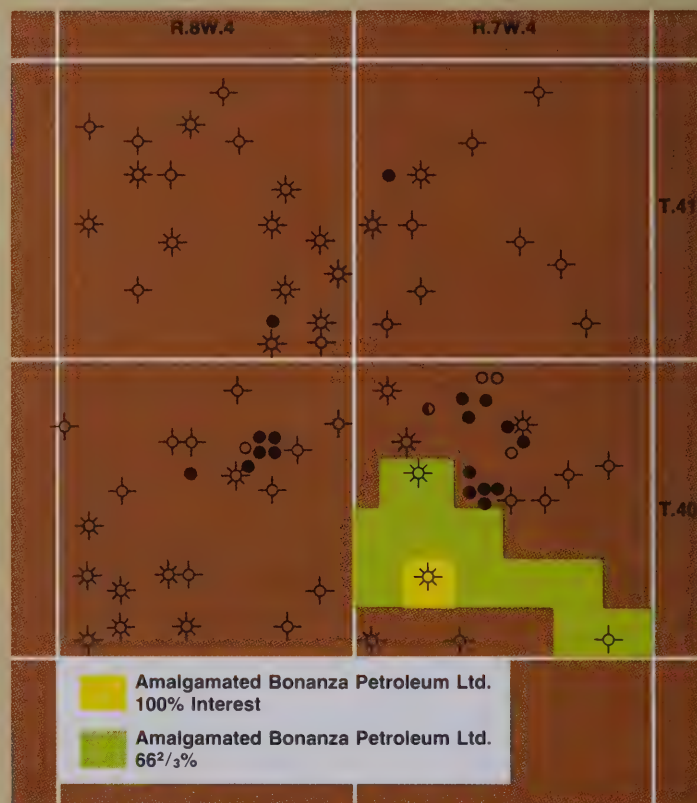
KNOPCIK PROSPECT



HATTON PROSPECT



HUGHENDEN PROSPECT



Bashaw gas processing facilities

During the year ended September 30, 1977, the Company participated in the drilling of 15 wells in Canada which resulted in 12 gas wells, and 3 dry holes.

The Company has met with considerable success in developing low cost sources of cash flow from various oil and gas prospects in Alberta and Saskatchewan. Bonanza now has wells producing or capable of producing natural gas in a number of fields including Bashaw, Cessford, Countess, Hughenden, Kirkwall, Jeans, Knopcik, Lake Newell, Oyen, Sedalia, Provost, Rosemary, Turin, and Wintering Hills. Oil production is derived from interests in Pembina, Bellshill Lake, Virginia Hills, Watts, Windfall and Wintering Hills. Details of three areas in which the Company has been active during 1977 are as follows:

Hatton (Saskatchewan)

This property consists of 35,000 acres in which the Company has a 45% working interest. Twelve wells are now on stream producing approximately 8 million cubic feet per day. Two successful development wells were drilled during 1977 on these lands which are now approximately 25% developed. Additional development will be carried out when the Province of Saskatchewan grants additional gas contracts for those gas reserves known to exist in the province.

Hughenden

During 1977 two wells were drilled on this property which resulted in a 100% owned viking gas discovery and a 66²/₃% owned dual viking and glauconitic gas discovery. The lands comprise an area of approximately 8000 acres. Development drilling to determine the extent of the reserves in this area will commence during 1978 with the prospect that initial gas sales could commence during 1979.

Knopcik

The Company owns interests varying from 13% to 55% in shallow gas rights in approximately 14,000 acres in this area of northwest Alberta. Oil and gas rights to all depths are owned in approximately 5000 acres. Four successful gas wells have been drilled on the Company's acreage proving gas reserves in the shallow zones. Recently, significant gas discoveries in the deeper zones by other operators in the immediate area have enhanced the value of the Company's lands. It is expected that a deep test will be drilled on the Company's land during the first half of 1978.

Bashaw

The Company sold certain petroleum and natural gas rights during 1977 in the Bashaw area of Central Alberta for a total consideration of \$2,600,000. The Company retained interests varying from 4 - 19% in approximately 1640 acres in this area which includes two productive gas wells and an interest in the natural gas processing plant.

Land Holdings and Reserves

The proven crude oil and natural gas reserves of the Company as at September 30, 1977,

were estimated by independent engineers as follows:

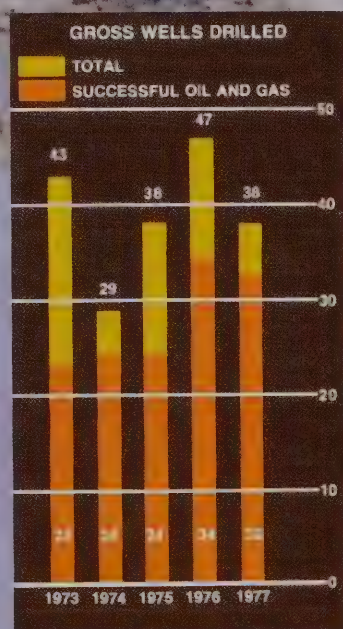
	CRUDE OIL (barrels)		NATURAL GAS (billion cubic feet)	
	Gross	Net	Gross	Net
Canada	1,600,800	1,238,000	90.175	67.462
United States	12,518,500	8,955,000	31.990	22.900
	<u>14,119,300</u>	<u>10,193,000</u>	<u>122.165</u>	<u>90.362</u>

The gross reserves represent the Company's working interest in the reserves before deducting royalties. The net reserves are after deducting all royalties. The reserves in the United States are primarily in Brazos County, Texas, and represent only those reserves considered to be proven by drilling to September 30, 1977. The lands in Brazos County to which reserves have been attributed as at September 30, 1977, are outlined in the map appearing elsewhere in this report and encompass an area of approximately 9000 acres out of the Company's total land holdings of approximately 75,000 acres in this project. Subsequent to that date, 17 additional wells have been drilled in Brazos County which have significantly increased the reserves attributable to the Brazos project. Additional reserves that may be recoverable by the successful implementation of a secondary recovery scheme have not been included.

As at September 30, 1977, the Company's holdings of oil and gas leases and rights were as follows:

	ACRES	
	GROSS	NET
CANADA		
Alberta	293,566	77,179
Saskatchewan	34,655	15,596
Other	22,972	1,132
	<u>351,193</u>	<u>93,907</u>
UNITED STATES		
Texas	75,323	41,487
Other	119,189	17,160
	<u>194,512</u>	<u>58,647</u>
	<u>545,705</u>	<u>152,554</u>

At the present time the Company is realizing \$12.08 per barrel for oil sold in Brazos County, Texas and \$10.75 for oil sold in the province of Alberta. Natural gas is contracted for \$2.50 per MCF (after being adjusted for B.T.U. content) in Brazos County, Texas, and is expected to go on stream during April, 1978. Natural gas in Canada is being sold at various prices ranging from \$1.45 per MCF in Alberta to 40 cents per MCF in the province of Saskatchewan.



Financial

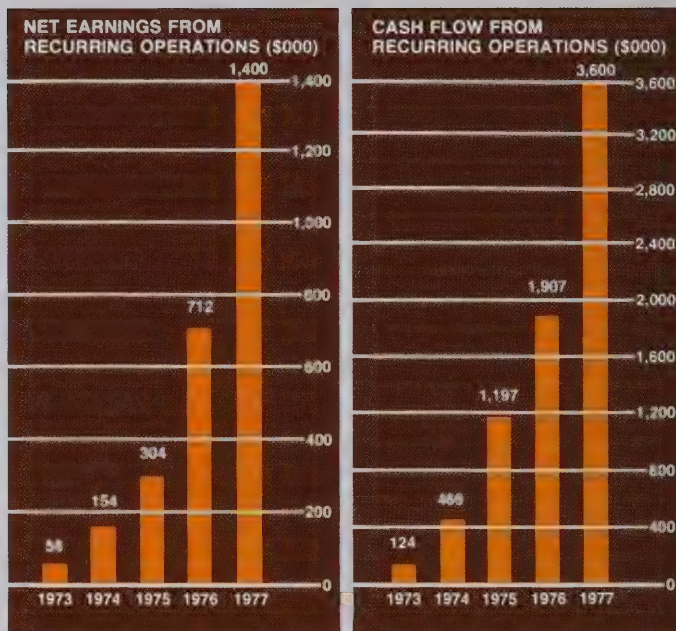
During the year ended September 30, 1977, cash flow from recurring oil and gas operations was \$3,571,404 (93 cents per share) as compared to \$1,907,579 (53 cents per share) in the prior year. Net earnings from recurring operations was \$1,398,151 (36 cents per share) as compared to \$711,892 (19 cents per share) in the prior year.

In addition, during the 1977 fiscal year the Company sold a portion of its producing gas properties in the Bashaw area of central Alberta for a cash consideration of \$2.6 million realizing a net after tax gain of \$1,310,701 (34 cents per share).

During December, 1976, the Company placed privately with institutional investors \$2,750,000 unsecured debentures convertible into common shares of the Company at \$6.25 per share. All such debentures were converted prior to the Company's fiscal year end.

Under the terms of an offering dated August 4, 1977, the Company issued to shareholders rights to subscribe for one additional common share for each ten common shares held at a price of \$15 per share. The rights expired on August 24, 1977, as of which date a total of 413,101 shares were issued for a net cash consideration of \$6,042,116.

During the year, the Company declared and paid its third successive dividend. The Company will be capable of paying future dividends at significantly higher rates with the much higher levels of cash flow that will be realized in 1978 and subsequent years.



STOCK TRADING

The shares of the Company are listed on the Toronto Stock Exchange and were the most actively traded oil and gas stock on that exchange during 1977 with more than 6.4 million shares being traded. The closing market prices of shares of the Company during the past two years were as follows:

3 MONTHS ENDED	HIGH	LOW
1976 March	\$ 3 1/8	\$ 2 1/2
June	4 1/8	2 3/4
September	6 3/8	4 1/8
December	7 3/8	5
1977 March	12 1/2	7 1/8
June	16 1/2	10
September	29 3/4	16
December	49 7/8	29 3/4

Consolidated Statement of Earnings
Year Ended September 30, 1977

	1977	1976
REVENUE		
Oil and gas production	\$4,764,678	\$2,426,782
Interest and other income	198,773	266,732
	<u>4,963,451</u>	<u>2,693,514</u>
EXPENSES		
Oil and gas production	834,286	362,978
General and administrative	392,062	278,164
Interest	353,699	196,293
	<u>1,580,047</u>	<u>837,435</u>
	3,383,404	1,856,079
Alberta Royalty Tax Credit	188,000	51,500
FUNDS GENERATED FROM OIL AND GAS PRODUCING OPERATIONS	<u>3,571,404</u>	<u>1,907,579</u>
CHARGES NOT REQUIRING FUNDS		
Depletion and depreciation	760,573	659,487
Non-productive exploration costs written off	328,680	150,000
Deferred income taxes	1,100,000	386,200
	<u>2,189,253</u>	<u>1,195,687</u>
EARNINGS BEFORE UNDERNOTED ITEMS	1,382,151	711,892
Gain on sale of oil and gas properties, net of applicable deferred income taxes of \$846,000 (1976 — \$1,010,000)	1,310,701	1,760,359
NET EARNINGS	<u><u>\$2,692,852</u></u>	<u><u>\$2,472,251</u></u>
PER SHARE		
Funds generated from oil and gas producing operations	<u><u>\$.93</u></u>	<u><u>\$.53</u></u>
Net earnings	<u><u>\$.68</u></u>	<u><u>\$.68</u></u>

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

Consolidated Balance Sheet
September 30, 1977

ASSETS

	1977	1976
CURRENT ASSETS		
Cash and short-term deposits	\$ 3,395,067	\$ 527,894
Accounts receivable	3,629,546	2,010,879
Receivable from sale of properties	2,600,000	—
Inventory of supplies, at lower of cost and net realizable value	—	210,799
	9,624,613	2,749,572
FIXED ASSETS		
Petroleum and natural gas leases and rights together with exploration development and equipment thereon, at cost	24,393,458	15,685,514
Accumulated depletion and depreciation	2,040,480	1,329,009
	22,352,978	14,356,505
	\$31,977,591	\$17,106,077

Approved by the Board:

John J. Fleming Director

William A. Bell Director

LIABILITIES

	1977	1976
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 3,839,996	\$ 2,325,932
DEFERRED GAS REVENUE	—	167,435
BANK PRODUCTION LOANS (note 2)	3,398,891	3,307,000
DEFERRED INCOME TAXES	3,914,600	1,968,600

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 3)		
Authorized		
6,000,000 common shares of no par value		
Issued		
4,659,337 (1976 — 3,671,636) shares	13,241,075	4,248,120
RETAINED EARNINGS (note 4)	7,583,029	5,088,990
	20,824,104	9,337,110
	\$31,977,591	\$17,106,077

Auditors' Report

To the Shareholders of
Amalgamated Bonanza Petroleum Ltd.

We have examined the consolidated balance sheet of Amalgamated Bonanza Petroleum Ltd. as at September 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
January 5, 1978

THORNE RIDDELL & CO.
Chartered Accountants

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

Consolidated Statement of Retained Earnings
Year Ended September 30, 1977

	1977	1976
BALANCE AT BEGINNING OF YEAR	\$ 5,088,990	\$ 2,724,698
Net earnings	2,692,852	2,472,251
	7,781,842	5,196,949
Dividends	198,813	107,959
BALANCE AT END OF YEAR	\$ 7,583,029	\$ 5,088,990

Consolidated Statement of Changes in Financial Position
Year Ended September 30, 1977

	1977	1976
SOURCE OF FUNDS		
From oil and gas producing operations	\$ 3,571,404	\$ 1,907,579
From other operations		
Proceeds on sale of oil and gas properties	2,600,000	3,217,782
	6,171,404	5,125,361
Bank production loans — net	91,891	2,107,000
Issue of common shares (note 3)	8,992,955	164,690
	15,256,250	7,397,051
APPLICATION OF FUNDS		
Fixed assets	9,529,025	7,823,663
Deferred gas revenue	167,435	51,301
Dividends	198,813	107,959
	9,895,273	7,982,923
INCREASE (DECREASE) IN WORKING CAPITAL	5,360,977	(585,872)
Working capital at beginning of year	423,640	1,009,512
WORKING CAPITAL AT END OF YEAR	\$ 5,784,617	\$ 423,640

Notes to Consolidated Financial Statements
Year Ended September 30, 1977

1. ACCOUNTING POLICIES

a) **Principles of Consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Bonanza Explorations Ltd. and Bonanza Resources Inc.

b) **Oil and Gas Properties**

The companies follow the full cost method of accounting for costs related to the exploration and development of petroleum and natural gas properties. Such costs are accumulated on an area of interest basis and are amortized on the unit of production method based on estimated recoverable oil and gas reserves in each area or are written off to income if exploration activities in any area are determined to be unsuccessful.

c) **Income Taxes**

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts.

d) **Foreign Currency Translation**

Amounts in U.S. currency have been translated to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Fixed assets, at the rate of exchange in effect at the date on which the respective assets were acquired;
- (iii) Revenue and expenses (excluding depreciation and depletion which are translated at the same rates as the related assets), at the average rate of exchange for the year.

2. BANK PRODUCTION LOANS

The bank production loans (\$3,210,000 U.S.) are evidenced by demand promissory notes and are secured by the company's interest in certain petroleum and natural gas properties and a general assignment of accounts receivable. The loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of existing working capital; therefore, no portion of the loans have been reclassified to current liabilities.

The estimated amount of bank loan repayments for the years subsequent to September 30, 1977 are as follows: 1978 — \$1,400,000 U.S.; 1979 — \$1,200,000 U.S.; 1980 — \$610,000 U.S.

3. CAPITAL STOCK

a) Changes in outstanding capital stock during 1977 were as follows:

	Number of Common Shares	Amount
Balance, September 30, 1976	3,671,636	\$ 4,248,120
Shares issued		
For cash on exercise of stock options	134,600	303,882
For cash on conversion of		
income debentures (i)	440,000	2,646,957
For cash on rights offering (ii)	413,101	6,042,116
Balance, September 30, 1977	<u>4,659,337</u>	<u>\$13,241,075</u>

- (i) In December, 1976, the company issued \$1,000,000 principal amount of 7% Convertible Debentures due December 15, 1981 and \$1,750,000 principal amount of 9% Convertible Sinking Fund Debentures due December 15, 1983 for \$2,646,957 cash, net of issue expenses of \$103,043. During 1977 the debentures were converted into common shares of the company at a price of \$6.25 per share.
- (ii) Under the terms of an offering dated August 4, 1977, the company issued to holders of its outstanding common shares rights to subscribe for one additional common share for each ten common shares held at a price of \$15.00 per share. The rights expired on August 25, 1977 as of which date 413,101 common shares had been issued for \$6,042,116 cash, net of issue expenses of \$154,399.
- b) As of September 30, 1977, options are outstanding which enable officers and key employees to purchase 6,400 common shares at \$2.62 per share, exercisable from time to time to April, 1979, and 18,000 shares at \$2.00 per share, exercisable from time to time to January, 1981.

4. DIVIDEND RESTRICTION

The company is subject to the Canadian Federal Anti-Inflation Act which provides for the restraint of dividends in Canada. Under the legislation the company is restricted in the payment of dividends during the year ended September 30, 1978 to a maximum amount of \$673,000 based on its 1977 earnings.

5. EARNINGS PER SHARE

Net earnings per share have been calculated based on the weighted average number of common shares outstanding during the year.

Fully diluted earnings per share for the year ended September 30, 1977 amount to \$.66, calculated on the basis of the following assumptions:

- a) The conversion of the convertible debentures at the date of their issuance in December 1976;
- b) The exercise of all options at the beginning of the year;
- c) The increase in net earnings by the debenture interest expensed during the year, net of income taxes, and by imputed earnings, after income taxes, from the proceeds that would have been received at the beginning of the year on exercise of all stock options.

6. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Remuneration to directors and senior officers (including the five highest paid employees) of the company for the year ended September 30, 1977 amounted to \$157,396. In addition, the company granted under date of November 1, 1976, to certain directors and senior officers an overriding royalty on all non producing oil and gas properties subsequently acquired by the company.

Consolidated Summary of Earnings

		Year Ended September 30			
	1973	1974	1975	1976	1977
Revenue					
Oil and gas production	\$ 70,584	\$618,946	\$1,586,506	\$2,426,782	\$4,764,678
Interest and other income	326,887	208,881	130,933	266,732	198,773
	<u>397,471</u>	<u>827,827</u>	<u>1,717,439</u>	<u>2,693,514</u>	<u>4,963,451</u>
Expenses					
Oil and gas production	17,856	60,904	166,656	362,978	834,286
General and administrative	171,943	231,274	219,669	278,164	392,062
Interest	83,711	69,979	134,069	196,293	353,699
	<u>273,510</u>	<u>362,157</u>	<u>520,394</u>	<u>837,435</u>	<u>1,580,047</u>
	123,961	465,670	1,197,045	1,856,079	3,383,404
Alberta Royalty Tax Credit	—	—	—	51,500	188,000
Funds generated from oil and gas operations	<u>123,961</u>	<u>465,670</u>	<u>1,197,045</u>	<u>1,907,579</u>	<u>3,571,404</u>
Charges not requiring funds					
Depletion and depreciation	57,168	188,187	463,884	659,487	760,573
Non-productive foreign exploration	—	—	147,085	150,000	328,680
Deferred income taxes	10,000	122,500	281,500	386,200	1,084,000
	<u>67,168</u>	<u>310,687</u>	<u>892,469</u>	<u>1,195,687</u>	<u>2,173,253</u>
Earnings from continuing operations	56,793	154,983	304,576	711,892	1,398,151
Earnings (loss) from discontinued operations	—	19,100	(167,687)	—	—
Net earnings before extraordinary items	56,793	174,083	136,889	711,892	1,398,151
Gain on sale of shares in subsidiary companies	978,900	—	189,672	—	—
Gain on sale of properties (net) of applicable deferred income taxes	—	—	—	1,760,359	1,310,701
1976 — \$1,010,000; 1977 — \$846,000	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,760,359</u>	<u>1,310,701</u>
Net Earnings	<u>\$1,035,693</u>	<u>\$174,083</u>	<u>\$ 326,561</u>	<u>\$2,472,251</u>	<u>\$2,708,852</u>
Per share					
Funds generated from oil and gas operations	\$0.04	\$0.13	\$0.33	\$0.53	\$0.93
Earnings from continuing operations	\$0.02	\$0.04	\$0.08	\$0.19	\$0.35
Net earnings	\$0.30	\$0.05	\$0.09	\$0.68	\$0.68

AMALGAMATED BONANZA PETROLEUM LTD.



AND SUBSIDIARY COMPANIES